



DCAN submission to the Australian Energy Market Commission (AEMC) October 2025

Consultation paper National Gas Rule Amendments 2026 (Gas networks in transition)

<https://www.aemc.gov.au/rule-changes/gas-networks-transition>

Initiated by AEMC in response to requests for rule changes by Energy Consumers Australia (ECA) and the Justice and Equity Centre (JEC)

About DCAN

DCAN comprises a large group of local Darebin residents of diverse ages and backgrounds who meet regularly and work together to seek a safe climate future. We actively interact with all three levels of government, encouraging each of them to adopt the policy changes that are now urgently needed. We have over 5,000 supporters. DCAN networks with other climate groups across Australia.

Our submission

We applaud AEMC for conducting this review of the regulatory framework for gas networks in transition. This is necessary given the steep decline in demand for gas across all sectors - residential and commercial, industrial and gas-powered generation.

As a preamble, we emphasise yet again the rapidly approaching tipping points in the Earth's ecosystems that so alarm climate and other scientists. Every investment directed at fossil fuels that could instead be funding renewables is contributing to the cumulative emissions burden. It is now widely accepted that methane has 80 times the warming potential of carbon dioxide over a 20-year period. Further gas investments should be avoided. Any gas investment approved in the next few years will be impacting the planet well beyond 2050.

Question 1: What are the issues impacting consumers and gas distributors under the energy transition?

We agree with points made in the submission of the Victorian Energy Future Network (VEFN).

In addition, we argue that AEMC and other energy market authorities should account for the effects on capital costs of both the changing climate and the energy transition. In the case of fossil fuel investments, the cost of capital can be expected to grow - as investors, credit agencies, insurers and others price in risk and uncertainty about fossil fuels. We also address this under Question 2, and propose that decommissioning expenditure should be treated differently to other capex.

Over time the momentum for investment in renewables will increase and fossil fuel investments will look increasingly poor choices. This will increase the cost of capital in multiple ways for the fossil fuel companies, leading regulated companies to seek greater recompense from the authorities.

1. How we guard against this, while at the same time incentivising decommissioning, should be a core consideration for AEMC.
2. We argue that a total review of all assumptions underlying cost of capital determinations is justified. It is noteworthy that gas utilities in the Netherlands and Ireland are in public ownership, and have higher credit ratings than utilities in other countries, including Australia.
3. We also urge AEMC to consider the prospect that public ownership of parts or all of the gas networks may come about sooner or later through decisions by either gas companies, their investors or governments. While clearly a policy question, AEMC could fruitfully consider whether it may be prudent for governments to own some or all gas networks some years into the future in order to manage an orderly wind down.

Question 2: what changes, if any, should be made to the NGR capital expenditure criteria?

Response - Decommissioning

Regulated companies will soon begin, if they haven't already begun, to alter how they price the terminal phase of their investments into the cost of capital in their proposed access arrangements. Climate change and the shift to renewables and the rapid rise of grid-scale batteries is altering their prospects for fully recovering their capital and for how this is priced by investors.

Decommissioning expenditure should be recognised but treated differently to other forms of capital expenditure. It should be priced as if it was a publicly owned utility. If this is not done the cost of decommissioning will be built into every decision from now on by the gas company, its investors, its insurers and its rating agencies. We refer to the IMF working paper by Luciano Greco and Mariano Moszoro. "Public versus Private Cost of Capital with State-Contingent Terminal Value", *IMF Working Papers* 2023, 056 (2023), accessed October 4, 2025, <https://doi.org/10.5089/9798400235276.001>

Greco and Moszoro state:

"In this paper, we contribute to the debate on public versus private discount rates by highlighting a crucial distinction between future flows of the project's net social benefits that are risky but predictable as contrasted to future economic flows that are unpredictable." (p.5)

"Because of contract incompleteness beyond the forecast period, the strategic interaction between the government and the private firm brings to a systematically larger expected terminal value for publicly financed utilities than for privately financed ones," (p.6)

"From a financial point of view, the feasibility of an infrastructure project is usually analyzed by deconstructing the future into two parts: a number of periods of volatile but

predictable flows of net social benefits; and, for the remaining part of the life of the project, unpredictable flows of net social benefits that determine the terminal value of the project." (p.7)

"Our argument in favor of a lower discount rate for government financing implies that, whenever the private sector is more efficient than the public sector (e.g., because of better management or enhanced attitude towards innovation), a trade-off arises between such efficiency gains and the lower cost of capital that government faces because of larger expected terminal values." (p.19)

"The kernel of the conundrum lies in the treatment of tail risks—low-probability, extreme-impact outcomes embedded in the terminal value—which differ between the public and private sectors due to the discretionary and asymmetric response of governments and private firms to unknown events." (p.19)

Response - other points

DCAN broadly supports the changes proposed by ECA. It is vital that expenditure decisions be efficient, account for the inevitable declining demand for fossil gas, consider lower cost options and alternative options to investing, and finally account for ultimate decommissioning costs.

Even with a reliability standard in place, investment in reliability of supply should be tempered by an assessment, however crude, of the value to customers. We note that willingness to pay (WTP) is only one mechanism used by economists for rigorously assessing value to customers - unfortunately AEMC only refers to WTP in its Directions paper (28 August 2025) *ECGS Reliability Standard and Associated Settings*.

Proposals to replace assets before end of life deserve critical scrutiny as outlined by ECA. Companies should justify, in a cost-benefit analysis, why the expenditure is needed and how alternatives have been evaluated. They should also be required to show why it was not anticipated at the time of the original investment.

Even if rare now, it is possible that companies will increasingly apply for advanced determinations of capital expenditure. We see this as in fact probable given the growing uncertainty over the future of the networks and the potential for very rapid change in customer use of gas. They should be made public as proposed by ECA.

Question 3 What changes, if any, should be made to the NGR opex criteria?

We agree with the VEFN submission.

Question 4: Does the current framework effectively manage and allocate risk and costs between consumers and network service providers in the context of uncertain demand?

We agree with the VEFN submission.

Question 5: How does ECAs proposal impact the recovery of capital costs for new and existing assets?

We agree with the VEFN submission (and ECA and JEC), but again reiterate that decommissioning expenditure should be treated differently to other forms of capital expenditure, and depreciation allowances set as though currently the responsibility of a publicly owned utility. We refer again to the IMF working paper of Greco & Moszoro (2023).

AEMC should address the likelihood that some companies will seek to sell off pipelines rather than maintain ownership during a termination phase or a serious wind down.

Question 6: How does JEC's proposal impact the recovery of capital costs?

We agree with the VEFN submission.

Question 7: Are new planning requirements necessary?

We agree with the VEFN submission, and make the additional point that obligations on owners of interstate pipelines now subject to light regulation should be strengthened. Information that is publicly available via the Access Arrangements for gas distributors should be available also for all transmission pipelines. The Eastern Gas Pipeline plays such a critical role in the east coast gas market, and much more information about it should be publicly available.

Question 8: Would a longer term outlook on the gas transition support better regulatory decision-making?

AEMC is to be congratulated for broadening the scope of the consultation paper to include such questions. Distribution and transmission companies are surely thinking in the long term. Information about their outlook on future customer base, changing gas use patterns and plans for ultimate decommissioning will be of great value once in the public domain. Commercial-in-confidence should not prevent this information from being revealed.

Question 9: Are changes to reference tariff variation mechanisms necessary?

We agree with the VEFN submission.

Question 10: Are changes to the tariff rules necessary?

We agree with the VEFN submission.

We query why AER continues to accept gas use by utilities of declining block tariffs, that cheapen the price with greater use. In May this year, the AER approved AusNet Services' 2025–26 tariff variation notice.

Networks should directly assist low income households that are big users of gas to reduce their gas use (insulation, draught-proofing, electrification)s - which may be then justified as opex.

Question 11 should the regulator be able to require shorter or longer access arrangement (AA) periods?

We agree particularly because of the potential to improve alignment between regulatory decisions on gas and electricity distribution

Question 12: Are changes required to the re-opener provisions?

We agree with the VEFN submission.

Question 13: Should there be changes to the existing or additional incentive mechanisms?

We agree with the VEFN submission.

Yours sincerely

The image shows two handwritten signatures in black ink. The signature on the left is 'Jim Crosthwaite' and the signature on the right is 'Ann Sanson'. Both are written in a cursive, flowing style.

Dr Jim Crosthwaite and Prof. Ann Sanson (DCAN Convenor)
on behalf of DCAN

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